

Local financial institutions to comply with US global tax law soon

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KUALA LUMPUR: Local financial institutions will have to comply with US global tax law, Foreign Account Tax Compliance Act (FATCA), soon, says PricewaterhouseCoopers (PwC).

"The Inland Revenue Board of Malaysia (IRB), which will be appointed by US as the competent authority, is expected to enter into an Intergovernmental agreement (IGA) with the US by year-end," PwC Malaysia Partner and Assurance Financial Services Leader Ong Ching Chuan told reporters in a media briefing today.

The signing of the IGA makes it mandatory for all financial institutions in Malaysia to comply with FATCA. Full compliance is expected to take effect from Jan 1, 2016, said PwC.

Financial institutions which fall under the FATCA scope is not limited to banks. Unit trust companies, private equity companies, life insurance companies, holding companies or treasury centres as well as those that perform custodial services such as nominee companies and trustees are also included.

They will have to identify and report US account holders' information to IRB, which will forward it on to the US Internal Revenue Service (IRS).

If the IGA is signed by year-end, IRB will have to conduct its first reporting to IRS by Sept 30 next year.

Ong said IRB has yet to announce the penalties for financial institutions which do not comply with FATCA.

FATCA, which has been in effect since July 2014, is intended to detect and deter the evasion of US tax by US persons who hide money outside the country. US taxes its citizens on their worldwide income regardless of where they live.

Ong said the cost and effort to comply with this act could be high, ranging from RM100,000 to several millions of ringgit. Financial institutions with large customer base may have to enhance their IT systems and manpower to conduct due diligence on customers.

One of the biggest challenges with FATCA compliance is its impact on customers' experience, he noted.

For example, non-US citizens will have to fill up forms to prove that they are not US citizens when they open a savings account in the bank.

Additionally, Malaysia may have to amend its laws and policy in order to accommodate FATCA as the reporting of customers' information to third parties will likely breach local privacy laws.

"I think Bank Negara and the authorities are in the midst of discussing this," said Ong, adding that the laws likely to be affected include the Personal Data Protection Act 2010 (PDPA), Financial Services Act 2013, and the Capital Markets and Services Act 2007 (CMSA).

However, the level of awareness on FATCA in Malaysia is still low.

"Most banks know about this, but not non-banks," he said, adding that PwC had begun work with banks two years ago to prepare them to be FATCA compliant.